Table 1

Estimated Marginal Personal Tax Rates By Size of Adjusted Gross Income (Percent)

Adjusted Gross Income, 1986$ (Thousands)	Current Law	Bradley-Gephardt	Kemp-Kasten	Treasury
$0-14	7.4	8.9	10.1	5.2
$14-36	21.9	16.9	20.0	16.9
$36-57	31.4	25.2	22.0	25.5
$57-85	39.1	29.1	28.0	29.4
$85-142	44.9	30.0	26.0	35.0
$142+	50.0	30.0	24.0	35.0
Average	19.8	16.4	17.2	15.2

SOURCE: NATIONAL ASSOCIATION OF REALTORSß/Data Resources, Inc.

In return for lower marginal rates each of the proposals would broaden the personal tax base by repealing or limiting many personal deductions and credits and taxing sources of income not taxed under current law. For example, while all the proposals retain the deductability of mortgage interest on a principal residence, all of the proposals limit the deductability of other personal interest. Both K-K and B-G raise the threshold for deductibility of medical expenses from 5 percent to 10 percent of AGI. Treasury introduces a 2 percent of AGI threshold for deductibility of charitable contributions. All the proposals limit the deductibility of state and local income, property and sale taxes to some extent, with Treasury being the most extreme by repealing deductability of all such taxes. All the proposals eliminate the two-earner deduction and income averaging. One special feature of the B-G proposal is that regardless of the taxpayers income, all deductions are made at the lowest marginal tax rate of 14 percent.

Overall, the B-G proposal would increase the personal tax base about 31 percent compared to about 23 percent for K-K and 34 percent for Treasury. Table 2 presents estimates of the average tax rates under these proposals, or the percent of income paid as federal taxes. Note that due to base broadening, average rates do not decline very much relative to marginal rates. As a general rule, average rates fall for taxpayers at or below the median family income of about $25,000 and for taxpayers with incomes of $100,000 or more. For those taxpayers in between the decline in marginal rates does not offset the increase in the taxbase, boosting average tax rates.

Table 2

Estimated Average Personal Tax Rates By Size of Adjusted Gross Income

(Percent)

Adjusted Gross Income, 1986$ (Thousands)	Current Law	Bradley-Gephardt	Kemp-Kasten	Treasury
$0-14	4.0	3.0	1.5	1.6
$14-36	10.3	9.8	11.6	9.8
$36-57	13.8	13.1	14.7	14.6
$57-85	17.4	17.7	17.8	17.7
$85-142	21.0	21.1	19.8	22.4
$142+	37.2	24.8	20.3	27.2

Source: NATIONAL ASSOCIATION OF REALTORSß/Data Resources, Inc.

Each of the proposals makes similar changes to the taxation of income from business and capital. The B-G and Treasury proposals impose a flat corporate tax rate of 30 percent and 33 percent, respectively, while the K-K proposal has a graduated corporate tax rate with a maximum of 35 percent on income over $100,000. In return, each of the proposals repeals the current dividend exclusion and lengthens depreciation periods for all depreciable assets. For example, the B-G proposal lengthens the depreciation period for structures to 40 years while accelerating the depreciation method to 250 percent declining balance. The Treasury proposal applies a constant 3 percent to the inflation-indexed unrecovered basis of the structure. The K-K proposal, which has been recently revised, would extend the depreciation period for structures to 25 years and apply a constant 6 percent depreciation rate to the original basis with indexing of the resulting cost recovery allowance. In addition, both B-G and Treasury would repeal the current 60 percent capital gain exclusion with Treasury indexing the asset basis. K-K would give the option of a 40 percent exclusion with no indexing of the basis or no exclusion with full indexing. Finally, a special feature of the Treasury proposal is that all interest expense, even that incurred in a trade or business, would be inflation indexed. For example, at a 5 percent inflation rate, 45 percent of interest expense would not be deductable as a business expense.

The following tables present the results of macroeconomic simulations of these three tax reform proposals by the NATIONAL ASSOCIATION OF REALTORSß using the Data Resources, Inc. model of the U.S. economy[2/]. As shown in Table 3 none of these proposals has a major impact on the overall growth rate of real GNP. However, this modest aggregate impact masks significant impacts on individual industries and sectors of the economy.

Table 3

Real GNP
(Percent change from baseline)

	1986	1987	1988	1989	1990	1995
B-G	-0.3	-0.5	-0.3	-0.3	-0.3	-0.2
K-K	-0.1	-0.1	0.1	0.2	0.3	1.0
Treasury	0.1	-0.1	-0.3	-0.2	0.2	0.5

As shown in Table 4, the B-G and K-K proposals would retain the current distribution of the federal tax burden between corporate and personal taxes. In contrast, the Treasury proposal shifts the tax burden from individuals to corporations.

Table 4

Federal Revenues by Source: 1986
(Percent of Total)

	Current Law	B-G	K-K	Treasury
Personal Tax	44.8	44.9	44.9	41.7
Corporate Tax	9.9	9.6	9.5	12.6
Indirect Business Tax	7.9	7.4	7.4	7.8
Social Insurance	37.4	38.1	38.2	37.9
Total	100.0	100.0	100.0	100.1

The increase in personal disposable income under the Treasury plan results in a sizeable boost of consumption above the baseline level despite a modest impact on overall GNP. In contrast, the B-G proposal results in a

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2/ These simulations are of the K-K and B-G proposals as introduced in the 98th Congress. Both proposals have been reintroduced in the 99th Congress with some significant changes to the K-K proposal. While these changes may affect some of the magnitudes attributed to the K-K proposal, they should not affect the relation of the K-K proposal to the B-G and Treasury proposals.

decline in consumption due not to a shift of GNP toward investment but from the fact that indexing is repealed which raises personal taxes and so reduces disposable income. K-K results in some increase in consumption in the out-years due to a higher GNP.

Table 5

Real Consumption
(Percent change from baseline)

	1986	1987	1988	1989	1990	1995
B-G	-0.2	-0.4	-0.4	-0.6	-0.9	-2.3
K-K	-1.2	-1.6	0.1	0.2	0.6	0.3
Treasury	0.4	0.6	0.4	0.4	0.4	0.2

Despite a decline in overall investment during a transition period both the B-G and K-K proposals result in an increase in overall investment in the out-years, enhancing productivity growth and real living standards. In contrast, the Treasury proposal results in a long-term decline in overall investment which reduces productivity and real living standards. All of the proposals result in significant shifts in the composition of investment.

Table 6

Real Investment
(Percent change from baseline)

	1986	1987	1988	1989	1990	1995
B-G	-1.2	-2.2	-1.4	-0.7	0.1	5.4
K-K	-0.1	-0.1	0.0	0.0	0.1	4.7
Treasury	-0.7	-3.3	-4.2	-3.7	-1.8	0.7

As shown in Tables 7, 8, and 9, under each of the proposals the single-family housing market is depressed during a three year transition period as markets adjust to the decline in home values. Home values fall due to the dilution in value of the mortgage interest deduction resulting from lower marginal tax rates. In the case of the Treasury proposal the decline in values is greatest due to the fact that property taxes are no longer deductable. After this transition period the level of single-family housing activity rises above the baseline as the decline in marginal tax rates results in declines in nominal interest rates. By 1995 mortgage commitment rates fall by 3 percentage points under B-G, 1.3 percentage points under K-K, and 2.2 percentage points under Treasury. The largest decline under B-G is due to the fact that in addition to reducing marginal tax rates B-G repeals indexing of tax brackets, exemptions, and the ZBA and so results in a much larger decline

in the federal deficit than do the other proposals. The deficit reduction provided by K-K and Treasury is limited to declines in interest expense due to the decline in market interest rates. The decline in interest rates also helps to recap some of the decline in home value.

Table 7

Value of the Stock of Single-Family Homes
(Percent change from baseline)

	1986	1987	1988	1989	1990	1995
B-G	- 9.8	- 9.1	- 8.4	- 7.7	- 6.9	- 3.3
K-K	- 5.1	- 5.3	- 5.5	- 5.8	- 6.1	- 6.3
Treasury	-10.0	-10.2	-10.7	-11.2	-11.5	-10.5

Table 8

Mortgage Interest Rates
(Percentage point change from baseline)

	1986	1987	1988	1989	1990	1995
B-G	-0.06	-0.16	-0.26	-0.47	-0.81	-3.00
K-K	-0.02	-0.06	-0.14	-0.23	-0.40	-1.32
Treasury	-0.21	-0.34	-0.56	-0.88	-1.22	-2.16

Table 9

Single-Family Housing Markets
(Percent change from baseline)

	1986	1987	1988	1989	1990	1995
Single-family housing starts						
B-G	- 9.6	- 5.2	- 1.1	0.5	3.2	14.6
K-K	- 5.2	- 2.2	0.5	1.5	3.2	1.8
Treasury	- 8.3	- 7.3	- 2.9	1.3	5.3	1.4

Single-family resales	1986	1987	1988	1989	1990	1995
B-G	-15.6	- 9.8	- 4.3	-1.0	3.4	19.5
K-K	- 7.8	- 3.4	0.5	2.0	3.9	2.5
Treasury	-14.4	-12.2	- 6.3	0.7	6.2	0.7

Each of the proposals reduces the rental cost of capital for structures to some degree through the decline in marginal tax rates and nominal interest rates and changes in capital gains taxation. The Treasury proposal results in the smallest decline in the rental cost of structures. In fact, barring reductions in interest rates the Treasury proposal increases the rental cost of structures somewhat since the reduction in depreciation is not offset by the decline in marginal tax rates.

Table 10

Rental Cost of Capital-Structures
(Percent change from baseline)

	1986	1987	1988	1989	1990	1995
B-G	-4.3	-6.3	-7.2	-7.4	-7.3	- 8.2
K-K	-8.8	-9.1	-9.1	-9.0	-9.4	-10.8
Treasury	-0.3	-0.1	-1.1	-2.2	-3.2	- 3.4

The decline in the rental cost of structures results in a proportional increase in investment in nonresidential structures. Multi-family starts decline during the transition period since a large proportion of multi-family units are built for the homeownership market.

Table 11

Multi-family Housing Starts
(Percent change from baseline)

	1986	1987	1988	1989	1990	1995
B-G	-8.7	-6.9	-4.9	-2.5	0.3	10.8
K-K	-3.7	-1.8	0.0	0.7	1.1	1.5
Treasury	-8.8	-7.2	-5.0	-0.8	1.4	-1.0

Real Investment in Nonresidential Structures
(Percent change from baseline)

	1986	1987	1988	1989	1990	1995
B-G	1.5	2.6	3.2	2.9	1.6	6.8
K-K	3.5	4.9	4.8	4.1	3.2	8.4
Treasury	0.3	-0.9	-2.2	-3.2	-3.6	0.7

In contrast, primarily through repeal of the investment tax credit all three proposals result in an increase in the rental cost of equipment, thereby eliminating the preferential treatment received by equipment under current law. The increase in the rental cost of equipment results in a decline in investment in equipment under all three proposals.

Table 12

Rental Cost of Equipment
(Percent change from baseline)

	1986	1987	1988	1989	1990	1995
B-G	15.3	13.7	12.9	12.6	12.7	12.1
K-K	10.9	10.6	10.4	10.0	9.3	7.7
Treasury	15.8	15.9	15.0	13.7	12.7	14.0

Investment in Nonresidential Equipment
(Percent change from baseline)

	1986	1987	1988	1989	1990	1995
B-G	-1.0	-3.2	-3.3	-2.5	-1.3	3.3
K-K	-0.5	-2.1	-2.3	-1.5	0.4	4.1
Treasury	-0.2	-4.3	-6.3	-6.2	-4.1	0.2

In comparing the three the K-K proposal appears to be most desireable since it provides additional investment incentives and so promotes more rapid growth of productivity and real living standards. In contrast, the Treasury proposal reduces investment incentives and so represents a reversal of the "supply-side" revolution of 1981. While B-G boosts investment in the out years this is done primarily through raising personal taxes to reduce the deficit and thereby reduce interest rates.

The behavior of interest rates is a critical factor in this evaluation. While it is true that reducing marginal tax rates would lower nominal interest rates, there is evidence that in today's market interest rates are determined by the inflow of funds from foreign investors who are totally exempt from U.S. taxes. To the extent that this is the case, none of those proposals would produce the decline in interest rates that is now expected.

Table 13

U.S. ECONOMIC OUTLOOK

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	84:4	85:1	85:2	85:3	85:4	86:1	86:2	86:3	1983	1984	1985	1986	1987
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,753	3,810	3,860	3,909	3,968	4,035	4,106	4,180	3,305	3,661	3,887	4,147	4,441
Percent Change	6.4	6.3	5.4	5.1	6.2	6.9	7.3	7.4	7.7	10.8	6.2	6.7	7.1
Percent Change (without inflation)	3.9	2.6	2.3	2.5	2.8	3.2	3.5	3.7	3.7	6.8	2.9	3.1	3.0
Consumption	3.9	4.5	3.6	3.0	3.0	3.0	3.5	3.2	4.8	5.3	3.7	3.2	3.3
Durables	12.1	8.3	6.5	4.9	4.0	3.7	4.4	4.2	12.1	12.9	6.6	4.4	4.6
Nondurables	2.1	3.4	3.2	2.7	2.7	2.8	3.2	2.9	3.7	4.7	2.8	2.9	2.8
Services	2.5	4.0	3.0	2.5	2.8	2.9	3.4	3.1	3.4	3.2	3.3	3.0	3.1
Residential Investment	-2.0	-1.7	10.9	19.6	5.1	3.0	-3.4	-5.8	41.7	12.4	3.3	2.9	-3.7
Nonresidential Investment	11.1	4.4	4.0	4.0	3.7	3.8	5.6	6.5	2.5	20.0	7.5	4.7	6.9
Structures	18.4	2.5	2.0	2.4	1.4	2.0	2.6	2.7	-7.8	15.7	6.1	2.2	4.2
Equipment	8.4	5.2	4.8	4.6	4.6	4.5	6.8	7.9	7.3	21.7	8.1	5.6	7.9
Exports	-3.2	5.1	4.0	3.9	4.2	5.7	7.7	8.3	-5.6	4.6	3.0	6.0	7.7
Imports	-26.6	12.5	8.6	7.9	7.6	6.2	6.2	5.9	7.6	27.1	6.2	6.8	5.8
Government Purchases	6.6	4.4	4.5	1.5	2.9	3.6	2.5	0.4	-0.3	3.5	5.3	2.6	2.4
Consumption (% of GNP)	64.8	65.1	65.3	65.4	65.4	65.4	65.4	65.3	65.8	64.8	65.3	65.3	65.5
Residential Investment (% of GNP)	3.6	3.6	3.6	3.8	3.8	3.8	3.7	3.6	3.5	3.7	3.7	3.7	3.4
Nonresidential Investment (% of GNP)	12.9	13.0	13.1	13.1	13.1	13.2	13.2	13.3	11.1	12.5	13.1	13.3	13.8
Structures (% of GNP)	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.5	3.2	3.5	3.6	3.5	3.6
Equipment (% of GNP)	9.4	9.4	9.5	9.5	9.6	9.6	9.7	9.8	7.9	9.0	9.5	9.7	10.2
Inventory Change ($ billions)	31.1	21.5	9.5	5.8	7.1	9.1	10.6	18.5	-13.5	56.8	11.0	14.0	-6.6
Mfg. Capacity Utilization Rate (%)	82	82	82	82	81	81	82	82	75	82	82	82	83
Auto Sales (millions of units)	10.2	10.8	10.6	10.8	10.8	10.8	10.8	10.9	9.2	10.4	10.7	10.8	11.1
Domestic (% of total)	72.9	77.0	77.1	74.4	73.4	73.1	72.3	71.9	74.0	76.4	75.5	72.4	70.5
Imported (% of total)	27.1	23.0	22.9	25.6	26.6	26.9	27.2	28.1	26.0	23.6	24.5	27.6	29.5
Manufacturing Industrial Production (% change)	0.1	5.4	1.8	2.1	1.9	4.5	3.8	5.1	7.8	11.3	3.5	3.5	4.9
Common Market	2.3	2.5	1.9	3.8	2.4	2.2	3.2	2.1	0.8	3.1	2.9	2.7	2.0
Japan	12.6	2.7	4.0	4.4	0.5	2.0	2.1	4.0	3.5	11.1	5.8	2.4	1.9
Employment(millions)(civilian:household basis)	106.0	106.4	106.8	107.4	107.9	108.4	108.8	109.4	100.8	105.0	107.1	109.1	111.3
Percent Change	2.5	1.7	1.5	2.2	1.8	1.9	1.6	2.3	1.3	4.1	2.0	1.9	1.9
Unemployment Rate (%) (civilian)	7.2	7.2	7.3	7.3	7.4	7.4	7.4	7.4	9.6	7.5	7.3	7.4	7.3
Personal Income per Household (average)<1>	39,504	39,998	40,304	40,611	41,166	41,776	42,495	43,071	35,415	38,539	40,520	42,799	45,462
Percent Change -- Year Ago (w/o inflation)	4.9	3.5	2.2	1.5	1.2	1.3	1.9	2.2	1.5	5.4	2.1	2.0	2.1
Personal Taxes per Household (average)	7,156	7,236	7,306	7,361	7,484	7,552	7,710	7,830	6,478	6,954	7,347	7,775	8,344
Percent Change -- Year Ago (w/o inflation)	5.6	4.0	2.6	1.8	1.4	1.2	2.2	2.7	-3.0	3.5	2.4	2.3	3.2
Percent of Personal Income	18.9	18.9	18.9	18.9	19.0	18.9	19.0	19.0	19.1	18.8	18.9	19.0	19.2
Disposable Income per Household (average)	32,348	32 762	32,998	33,250	33,681	34,225	34,785	35,241	28,938	31,586	33,173	35,024	37,118
Percent Change--Year Ago (w/o inflation)	4.7	3.5	2.2	1.6	1.3	1.4	2.0	2.2	2.5	5.8	2.1	2.0	1.8
Household Interest Payments (% of total)	10.4	10.3	10.4	10.7	10.8	10.7	10.7	10.7	9.8	10.4	10.5	10.6	9.9
Net Worth Per Household (average)	79,956	81,921	83,722	84,854	86,622	87,880	89,644	90,972	73,840	77,666	84,280	90,308	97,138
Percent Change--Year Ago (w/o inflation)	2.7	4.9	6.1	4.8	5.1	4.0	3.7	3.6	7.6	1.4	5.2	3.6	3.4
Consumer Price Inflation (CPI)	3.9	3.3	2.9	3.0	3.4	4.0	4.1	4.2	3.2	4.2	3.4	3.8	4.1
Gross National Product Inflation (GNP Deflator)	2.4	3.6	3.1	2.6	3.3	3.6	3.6	3.6	3.8	3.7	3.1	3.4	4.0
Personal Consumption Inflation	2.6	2.8	2.6	2.7	3.2	3.7	3.9	3.9	3.7	3.2	2.9	3.5	4.1
Residential Construction Inflation	2.0	1.9	2.8	2.8	3.3	4.3	4.9	4.8	1.7	4.0	3.2	4.0	4.8
Nonresidential Construction Inflation	-1.1	1.5	2.0	2.6	3.3	4.4	4.8	4.8	-1.0	0.2	1.4	4.0	4.9
Producers Price Inflation (WPI)	0.4	1.1	0.2	1.3	2.5	3.3	3.4	3.9	1.3	2.4	0.0	2.9	4.1
Compensation per Manhour (% change)	3.3	5.6	4.1	4.1	4.9	6.0	5.2	5.2	4.8	4.1	4.3	5.1	5.3
Productivity (% change)	1.1	1.4	1.6	1.9	1.6	1.3	1.5	1.7	3.4	2.7	1.4	1.6	1.8
Unit Labor Cost (% change)	1.9	4.1	2.4	2.1	3.2	4.6	3.6	3.4	1.3	1.4	2.8	3.5	3.4
Unit Capital Cost (% change)	4.3	4.1	3.8	3.4	3.0	2.7	2.4	2.2	6.9	4.6	3.6	2.4	1.9
Before Tax Corporate Profits ($ billions)<2>	230	228	229	232	231	239	241	249	213	242	230	245	269
Corporate Tax Liability	89	88	87	88	88	95	97	101	86	96	88	98	111
After Tax Profits	141	141	143	144	143	144	145	148	127	146	143	146	158
Inventory Valuation Adjustment	-2	-3	-2	-6	-12	-16	-17	-19	-11	-6	-6	-18	-21
Capital Consumption Adjustment	66	70	76	81	86	88	90	92	33	56	78	91	87
Profits from Current Production (with IVA, CCA)	205	208	216	219	218	216	218	221	149	196	215	219	224
Adjusted for Inflation (84:3 base)	203	205	212	213	210	206	207	207	156	197	210	206	203
Percent Change - Year Ago	12.7	8.9	7.4	6.6	3.1	0.8	-2.4	-2.7	46.0	26.6	6.4	-1.6	-1.5
Per Unit of Output (% of GNP)	5.5	5.5	5.6	5.6	5.5	5.4	5.3	5.3	4.5	5.4	5.5	5.3	5.1
Effective Corporate Tax Rate (%)<2>	29	28	28	28	28	30	30	31	34	31	28	30	32
Federal Tax Receipts (Unified basis)	637	641	822	731	674	664	915	761	613	676	717	767	832
Percent of GNP	17.0	16.8	21.3	18.7	17.0	16.4	22.3	18.2	18.6	18.5	18.5	18.5	18.7
Federal Expenditures (Unified basis)	888	931	937	923	956	985	994	1,000	803	851	937	1,001	1,082
Percent of GNP	23.7	24.4	24.3	23.6	24.1	24.4	24.2	23.9	24.3	23.2	24.1	24.1	24.4
Surplus or Deficit (Unified basis)	-250	-290	-114	-191	-282	-321	-78	-239	-190	-175	-220	-234	-249
% of GNP	6.7	7.6	3.0	4.9	7.1	8.0	1.9	5.7	5.8	4.8	5.6	5.6	5.6
% of Personal Savings	150.4	181.8	78.2	140.0	202.8	218.8	51.6	161.3	158.1	110.4	150.7	157.0	169.1
% of Net Domestic Savings	73.5	86.4	34.9	59.4	88.8	98.8	23.8	72.9	80.0	53.6	67.4	71.7	75.9

<1> Includes personal contributions for social insurance.
<2> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Dr. Richard Peach, and Janemarie Mulvey.

Table 14

REAL ESTATE AND FINANCIAL MARKETS

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	84:4	85:1	85:2	85:3	85:4	86:1	86:2	86:3	1983	1984	1985	1986	1987
REAL ESTATE MARKETS													
Total Single-Family Home Sales (thousands)	3,755	3,941	4,128	4,224	4,236	4,256	4,203	4,201	3,754	3,934	4,132	4,203	3,828
(single-family resales and completions)													
Percent Change -- Year Ago	-0.2	-5.7	-0.3	18.3	12.8	8.0	1.8	-0.5	44.9	4.8	5.0	1.7	-8.9
Existing Single-Family Home Sales (thousands)	2,773	2,876	2,980	3,050	3,095	3,095	3,100	3,111	2,719	2,866	3,000	3,100	2,800
Percent Change - Year Ago	0.6	-2.2	-1.8	12.4	11.6	7.6	4.0	2.0	39.6	5.4	4.7	3.3	-9.7
Dollar Volume (billions)	238.8	251.4	264.0	270.4	268.8	274.8	280.5	283.2	224.5	247.2	263.6	278.9	260.8
Existing Home Prices - Median ($1000's)	72.4	74.2	75.8	76.3	75.1	77.0	78.7	79.4	69.8	72.7	75.4	78.3	81.6
Percent Change - Year Ago	3.4	3.5	3.6	3.7	3.7	3.8	3.9	4.1	3.2	4.2	3.6	4.0	4.2
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	662	639	633	633	627	658	677	683	633	669	633	674	715
Percent of Household Income	21	20	20	20	19	20	20	20	22	22	20	20	20
Private Housing Starts (thousands)	1,559	1,709	1,834	1,931	1,925	1,901	1,835	1,799	1,704	1,771	1,850	1,820	1,701
Percent Change - Year Ago	-8.2	-13.1	-3.2	16.1	23.5	11.2	0.0	-6.8	61.3	4.0	4.4	-1.6	-6.6
Single-Family	1,012	1,098	1,183	1,210	1,176	1,197	1,138	1,124	1,066	1,102	1,167	1,136	1,059
Percent of Total	64.9	64.3	64.5	62.7	61.1	63.0	62.0	62.5	62.6	62.2	63.1	62.4	62.3
Multi-Family	546	611	651	721	749	704	697	675	637	670	683	684	642
Percent of Total	35.1	35.7	35.5	37.3	38.9	37.0	38.0	37.5	37.4	37.8	36.9	37.6	37.7
Mobile Home Shipments	297	308	323	352	353	351	345	337	296	296	334	341	331
New Single-Family Home Sales (thousands)	620	641	647	663	669	671	678	687	626	639	655	678	617
Percent Change - Year Ago	-7.7	-7.3	2.1	8.6	7.9	4.6	4.9	3.6	50.1	2.0	2.5	3.6	-9.0
New Home Prices - Median ($1000's)	81.2	81.7	82.4	83.2	84.0	85.0	86.1	87.3	75.5	80.2	82.8	86.7	91.2
Percent Change - Year Ago	7.0	4.9	2.4	2.5	3.4	4.0	4.5	4.9	8.9	6.3	3.3	4.7	5.1
New Home Prices--Mean ($1000's, Quality Adjusted)	94.6	95.5	96.0	97.2	97.1	98.6	99.7	101.4	89.7	93.5	96.5	100.4	105.2
Percent Change - Year Ago	4.9	4.9	2.8	2.4	2.6	3.2	3.9	4.3	2.1	4.3	3.2	4.0	4.8
NAR Affordability Index	85.6	87.4	91.6	90.6	90.4	91.0	92.3	89.7	82.0	85.7	91.5	92.3	92.3
New Mortgage Commitments ($ billions)	170.9	177.8	187.7	190.5	201.4	191.6	191.6	180.8	163.4	186.9	189.4	187.0	176.5
Percent Change - Year Ago	4.2	-7.0	-9.1	6.5	17.9	7.7	2.0	-5.1	152.1	14.4	1.3	-1.2	-5.6
Mortgage Debt Outstanding ($ billions)	2,070	2,166	2,259	2,355	2,444	2,535	2,619	2,706	1,752	1,962	2,306	2,661	2,985
Homeowners' Equity ($ billions)<1>	1,478	1,492	1,503	1,519	1,536	1,557	1,575	1,596	1,554	1,505	1,512	1,586	1,668
Housing Inventory (millions)	91.7	92.0	92.4	92.7	93.2	93.6	94.0	94.4	89.6	91.1	92.6	94.2	95.7
Rental Vacancy Rate (%)	5.6	5.6	5.6	5.6	5.5	5.5	5.5	5.5	5.6	5.7	5.6	5.5	5.5
Unsold New Homes (% of sales)	55.6	53.5	49.1	50.0	49.4	53.4	53.3	55.4	43.0	50.6	50.5	53.1	49.6
Office Vacancy Rate (%)<2>	11.1	10.7	10.4	10.1	9.9	9.7	9.5	9.4	11.7	12.3	10.3	9.5	9.3
Industrial Vacancy Rate (%)<2>	4.2	4.0	3.9	3.8	3.8	3.7	3.7	3.6	4.9	4.5	3.9	3.6	3.4
New Commercial Building Construction (% Ch Value)	61.3	-1.9	-2.0	-1.0	0.8	0.2	2.9	-2.9	-4.2	37.7	12.4	0.3	2.2
New Industrial Building Construction (% Ch Value)	54.8	16.0	9.7	18.4	12.3	17.8	12.5	20.5	-25.7	13.3	19.5	15.8	21.0
FINANCIAL MARKETS													
Money Supply													
M1 (% change)(FED Target 4-7%)	1.9	9.5	6.2	4.8	4.3	5.2	5.8	6.4	11.1	6.6	5.7	5.4	5.3
M1 Velocity (% change)	4.4	-2.9	-0.7	0.3	1.7	1.7	1.4	1.0	-3.1	3.9	0.4	1.2	1.7
M2 (% change)(FED Target 6-8.5%)	9.7	12.1	7.5	5.1	4.8	5.7	6.9	7.6	12.6	7.7	8.4	6.2	6.9
M2 Velocity (% change)	-3.0	-5.2	-1.9	0.0	1.3	1.2	0.3	-0.1	-4.4	2.9	-2.1	0.5	0.2
Monetary Base (% change)	5.0	10.7	3.8	3.9	4.9	5.1	6.0	5.9	9.5	8.1	6.4	5.2	6.0
Flow of Funds (NIA Basis)													
Sources (total:gross savings)	656	650	646	651	662	675	696	713	479	654	652	702	743
Private													
Personal Savings	166	160	146	137	139	147	152	148	118	157	145	150	147
Savings Rate	6.3	5.9	5.4	5.0	5.0	5.2	5.2	5.0	5.0	6.1	5.3	5.1	4.7
Gross Business Savings	534	543	555	563	566	571	579	589	454	518	557	584	621
Government													
Federal	-200	-205	-209	-214	-217	-224	-222	-220	-179	-176	-211	-222	-237
State and Local	52	53	52	55	53	56	55	57	44	52	53	55	61
Foreign (current account deficit)	104	100	102	110	121	126	132	138	42	103	108	135	151
Uses (total:gross investment)	636	632	631	643	655	669	682	702	472	637	640	692	730
Nonresidential Investment													
Equipment	291	296	300	305	311	317	325	335	223	276	303	330	371
Structures	158	159	161	163	165	167	170	173	130	150	162	172	188
Residential Investment	155	155	161	169	173	176	176	176	132	154	164	176	177
Inventory Investment	31	21	10	6	7	9	11	19	-13	57	11	14	-7
Value of the U.S. Dollar (Weighted by Trade) (Base=1967)	1.143	1.159	1.129	1.105	1.082	1.062	1.044	1.027	1.024	1.095	1.119	1.036	0.981
Percent Change	8.9	5.6	-9.8	-8.5	-7.8	-7.2	-6.7	-6.3	3.7	6.9	2.2	-7.4	-5.3
Selected Interest Rates (Percent)													
Mortgage Commitment Rates													
30 Year,Fixed-Rate	14.1	13.2	12.8	12.7	12.8	13.1	13.2	13.2	13.9	14.2	12.9	13.2	13.4
Real Mortgage Rate	11.7	9.6	9.7	10.1	9.5	9.5	9.6	9.6	10.2	10.6	9.8	9.4	9.5
1 Year ARM (without buy-down)	11.7	10.1	9.8	9.8	10.3	10.7	10.8	10.7	11.3	12.6	10.0	10.8	11.5
Real Mortgage Rate	9.3	6.5	6.8	7.3	7.0	7.1	7.2	7.0	7.5	9.1	6.9	7.0	7.5
Corporate Bond Rate (AAA)	12.3	11.5	11.2	10.7	10.9	10.6	10.9	10.5	12.0	12.7	11.1	10.8	10.9
Government Bond Rate	11.8	11.0	10.5	10.1	10.3	10.2	10.4	10.1	11.3	12.5	10.4	10.2	10.5
Real Government Bond Rate	9.4	7.4	7.4	7.5	7.0	6.6	6.7	6.4	7.6	8.9	7.3	6.4	6.5
Federal Funds Rate	9.3	7.6	7.5	7.9	8.6	9.4	9.5	9.5	9.1	10.2	7.9	9.5	10.5
3 Month Treasury Bill Rate	8.8	7.2	7.0	7.2	7.6	8.2	8.3	8.3	8.6	9.5	7.2	8.3	9.1
Real 3 Month T-Bill Rate	6.4	3.6	3.9	4.6	4.3	4.6	4.7	4.7	4.8	6.0	4.1	4.5	5.1
1 Year Treasury Bill Rate	10.0	8.4	8.1	8.1	8.6	9.0	9.1	9.0	9.6	10.9	8.3	9.1	9.8
Real 1 Year T-Bill Rate	7.6	4.8	5.1	5.6	5.3	5.4	5.5	5.3	5.8	7.4	5.2	5.3	5.8
Commercial Paper Rate	9.2	7.6	7.5	7.8	8.4	9.1	9.2	9.2	8.9	10.1	7.8	9.2	10.1
Rate on Money Market Fund Shares	9.3	7.6	7.6	7.9	8.6	9.2	9.4	9.3	9.0	10.3	7.9	9.4	10.3
Prime Rate	11.8	10.2	9.7	9.7	10.3	10.9	11.2	11.4	10.8	12.0	10.0	11.3	12.2

<1> Homeowners Equity has been adjusted to correspond to the Federal Reserve's Flow of Funds data.
<2> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Dr. Richard Peach and Janemarie Mulvey

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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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MARCH 1985

Outlook for the Economy and Real Estate

Aggregate Economy

The economy continues to experience robust growth as evidenced by an upward revision in real GNP growth to 4.9 percent for the fourth quarter of 1984. The primary reason for the revision was an unexpected improvement in the trade balance. Unfortunately, further improvements in the trade balance are not expected. In fact the January trade deficit was the largest monthly deficit since September of 1984. This trend, which is expected to continue, will lead to increased import penetration in domestic markets holding down domestic output and employment.

The economy is expected to grow at a moderate pace of 3 to 3-1/2 percent for 1985 as lower interest rates continue to stimulate consumer demand for durables, including automobiles and housing. An indication of strong growth in consumer demand in the near term was an increase of 3.7 percent in household durable good orders in January. In the housing market, building permits for single family residential units have increased a strong 8.2 percent over the past three months. By the end of 1985, slower growth is expected as the combination of slower growth of money and credit by the Federal Reserve Board and mounting budget deficits cause interest rates to increase.

Just as consumer and investment demand led the recovery, a decline in these components by 1986 could lead to slower growth in output with real GNP growth reaching only 2 percent for the entire year. As growth in consumer debt continues to outstrip growth in disposable income, consumer spending will dampen as consumers try to reduce their debt burden. Furthermore, a key indicator of future business investment, non-defense capital good orders, plummetted 11.5 percent in January reflecting apprehension by investors that the Federal government will increase taxes on investment in equipment and structures. This was the sixth and largest decline in this indicator in the last eight months, underscoring less official support for investment and economic growth.

Other forms of fixed investment are also likely being diminished due to apprehension about tax reform. Potential investors in summer homes, apartments, warehouses, retail space and other areas potentially hard hit by tax reform are becoming hesitant about investing in these areas knowing that there could be a decline of 10 to 20 percent or more in the value of their investments if, for example, the Treasury Proposal were adopted.

Employment and Inflation

Although the unemployment rate increased in January to 7.4 percent, this 0.2 percentage point increase should not be interpreted as a deterioration in the employment situation. In fact, the entire increase in the January unemployment rate was due to a larger than normal influx of woman entering the ranks of the unemployed; a seasonal phenonmenon that usually occurs this time of the year as temporary jobs created during the holidays are abolished.

Overall, labor market conditions continued to improve in January as nonfarm payroll employment increased by 350,000 jobs while average weekly hours worked declined by 0.1 hours. Both of these indicate increased confidence by employers to hire new employees rather than asking current workers to increase their workload.

The employment outlook remains favorable as growth in employment is expected to outpace additions to the labor force, holding the unemployment rate to 7.2 percent for 1985. By 1986, however, unemployment could increase as economic activity begins to slow.

Inflation continues to remain well under control. The Consumer Price Index (CPI) increased a modest 0.2 percent in January while the Producer Price Index was virtually unchanged. The CPI is expected to increase just 3.2 percent during 1985 as oil prices continue to decline and the strong dollar continues to hold down the price of imports as well as the prices of domestic competitors. Also, unit labor costs are rising at modest levels due to deregulation, relatively low increases in wages and continued improvement in productivity.

Over the longer term inflation is expected to reaccelerate in 1986 and 1987 as productivity growth slows, leading to an overall increase in unit labor costs and prices of products and services.

However, the optimistic forecast for inflation is not without risk. A main deterrent to price increases has been the existence of a strong dollar relative to other currencies. Consequently, a significant decline in the dollar could renew inflationary pressures leading to a larger then expected acceleration in prices.

Monetary Policy and Interest Rates

In his recent report to the Senate Banking Committee, Federal Reserve Board (FED) Chairman Paul Volcker testified that the FED intends to return to a more neutral stance, becoming less accomodative then it had been during the last quarter of 1984. The FED's primary goal in 1985 will be to provide sufficient money and credit to fuel moderate economic growth while guarding against a resurgence of inflation. Because of the sensitivity of the FED to the record breaking strength of the dollar, the FED will be hesitant about actively pushing interest rates higher in fear that the dollar would soar to still higher levels.

The interest rate outlook remains mixed. Short-term interest rates are expected to trend upward through 1985 as private and public credit demands continue to mount. Long-term rates, on the other hand, should decline through the first half of 1985 reflecting the slow downward adjustment of inflation expectations. Long-term rates are then expected to level off by the end of 1985 before trending upward in 1986.

Real Estate Markets

Real estate markets continues to improve in response to declining interest rates. Existing home sales increased 4.5 percent in January reaching a seasonally-adjusted annual rate of 3 million units. As mortgage interest rates continue to trend downward through the first half of 1985 existing home sales are expected to reach the 3.3 million unit rate by mid-year. For all of 1985 total resales should reach 3.2 million units, falling off to 3 million units in 1986.

Overall, total housing starts increased 14.9 percent in January. However, the entire gain was due to a 76 percent increase in starts of structures with five or more units. This large increase in multifamily starts likely was compensating for the relatively low multifamily starts rate in December which was probably due to fears of increased federal taxes on rental properties and second homes following the announcement of the Treasury Department's proposed tax changes the previous month. Total housing starts are expected to trend upward in 1985. For the entire year housing starts are expected to total 1.8 million units before declining slightly to about 1.78 million units in 1986.

Affordability is expected to improve through 1985, primarily due to further declines in mortgage interest rates. The effective committment rate on 30 year, fixed rate mortgages is expected to decline to 13 percent by the second quarter of 1985, before increasing by the end of the year. This will boost the NAR Affordability Index to 89.1 percent for all of 1985. By 1986 mortgage rates could continue to trend upward resulting in a decline in the Affordability Index to 88.5 for the entire year.

The various components of nonresidential construction continue to exhibit different trends. New commercial construction put in place should begin to slow in 1985 due to a surplus of office space and apprehension about tax reform. For all of 1985 new commercial building construction should increase 13.6 percent. In 1986 new commercial building construction should actually decline 1.5 percent over the previous year.

Industrial construction, on the other hand, is expected to record strong gains through 1987. New industrial building construction should increase 15.8 percent in 1985 compared with 11.9 percent in 1984. By 1986, growth in new industrial building construction should reach 18.9 percent.

Special Supplement

The Current Recovery: Was Consumption or Investment Responsible?

One of the strongest recoveries since 1950 is beginning to wind down with growth in real output surpassing the average of the six preceeding recoveries. Yet, there has been some confusion as to what has been the dominant force of the recovery - consumption or investment. The answer will differ depending on which type of analysis is used.

In observing the rate of growth of various components of GNP over the first eight quarters of the recovery it appears that growth in investment and not consumption has dominated the recovery. (Table 1) Using this analysis